US Embassy Jakarta
ECONOMIC SECTION

INDONESIA: TRADE AND INVESTMENT HIGHLIGHTS
APRIL 2006

Summary:

- Indonesia's 2006 first quarter exports increased 12.5 percent year-on-year (YoY) to USD 22.4 billion, while imports dipped slightly. Electrical tools, coal, and rubber and rubber products led all exports.

- Indonesia and Japan held a fourth round of bilateral Economic Partnership Agreement talks April 17-21 in Tokyo.

- President Susilo Bambang Yudhoyono on April 7 said his administration would postpone submitting to parliament proposed revisions to Indonesia's 2003 Labor Law. The move followed large labor demonstrations opposing the plan.

- The Ministry of Manpower and Transmigration issued a decree in late March allowing companies to apply for expatriate work permits prior to workers arrival in Indonesia.

- Minister of Transportation M. Hatta Rajasa said on April 21 that the Indonesian Government (GOI) is considering a USD 200 million soft loan from China to finance construction of double-track railway connecting West and Central Java.

- Representatives from government and business met on April 12 to discuss plans to support and revitalize Indonesia's textile industry.

- A leading Indonesian automobile industry association reported that first quarter car sales in Indonesia declined 45 percent YoY.

- The Ministry of Finance on April 17 announced that it plans to abolish import duties on raw materials for textiles, beverages, footwear and electronics.

- Minister of Trade Mari Pangestu said on April 19 that her Ministry would abandon plans to issue more sugar import licenses.

Export Growth Continues

The Central Bureau of Statistics (BPS) announced on May 1 that Indonesia's exports reached USD 22.4 billion for the first quarter (Q1) of 2006, a YoY increase of 12.5 percent. Non-oil and gas exports rose to USD 17.2 billion, a YoY increase of 10.7 percent. First quarter 2006 imports were USD 13.2 billion, a -2.5 percent decline YoY. Despite a 7.4 percent appreciation of the Indonesian currency, the Rupiah, in Q1 of 2006, declining imports and strong export growth resulted in Indonesia's trade surplus increasing 44.9 percent during the quarter.

Table 1: Indonesian Trade Performance Q1 2006:

In USD billions	2005 Q1	2006 Q1	Percent Increase 2006/2005
Export	19.87	22.35	12.5
Oil and Gas	4.34	5.15	18.7
Non-Oil and Gas	15.53	17.20	10.7
Agricultural	0.67	0.89	32.2
Industrial	13.25	14.18	6.9
Mining and others	1.61	2.13	32.4
Import	13.58	13.23	-2.5
Oil and Gas	3.75	3.64	-2.9
Non-Oil and Gas	9.83	9.59	-2.4
Balance of Trade	6.29	9.12	44.9
Imports by Broad Economic Categories:			
Consumption Goods	1.04	1.22	17.5
Raw Materials	10.67	9.74	-8.7
Capital Goods	1.86	2.27	21.7

Source : Central Statistic Agency (BPS)

Indonesia’s agriculture and mining sectors recorded the highest Q1 export growth at 32.2 and 32.4 percent respectively YoY. Minister of Trade Mari Pangestu noted on April 19 that world demand for agriculture goods, such as fish and shrimp, remains high and offers a good opportunity for Indonesia to boost exports in these labor-intensive sectors. Overall, electrical tools, coal, and rubber and rubber products were Indonesia's top three non-oil and gas export earners in Q1, accounting for USD 1.8, USD 1.3 and USD 1.2 billion respectively. Total imports declined in Q1 with weaker demand for raw materials. The United States edged out Japan as Indonesia’s largest non-oil and gas export destination in Q1 of 2006. Singapore remained a close third.

Table 2: Indonesia's Top 10 Non-oil and Gas Exports Q1 2006 (In USD billions)

Commodity	2005 Q1	2006 Q1	Percent of Total 2006
Electrical Tools	1.69	1.77	10.3

Coal	0.87	1.33	7.7
Rubber and rubber products	0.81	1.25	7.3
Mechanical appliance	0.98	0.94	5.5
Copper, Ash and Residues	0.76	0.82	4.8
Garment – not Knitted	0.78	0.80	4.7
Furniture, home lightings	0.86	0.68	3.9
Pepper	0.53	0.57	3.3
Household products	0.55	0.52	3.0
Fish and shrimps	0.38	0.47	2.7
Total top 10 products	8.21	9.15	53.2
Other	7.32	8.05	46.8
Total non-oil and gas exp	15.53	17.20	100.0

Source : Central Statistic Agency (BPS)

Table 3: Indonesia: Main Non-Oil and Gas Export Destinations, Q1 2006 (FOB value, in USD billions)

Country of Destination	2005 Q1	2006 Q1	Percent of Total (2006)
U.S.A	2.36	2.53	14.7
Japan	2.34	2.37	13.8
Singapore	1.58	1.78	10.4
China	0.86	1.03	5.9
Malaysia	0.75	0.94	5.5
South Korea	0.52	0.67	3.9
European Union	2.54	2.90	16.9
Taiwan	0.38	0.43	2.5
Australia	0.28	0.33	1.9
Others	3.91	4.21	24.5
TOTAL	15.53	17.20	100.0

Source : Central Statistic Agency (BPS)

Indonesia-Japan Continue Bilateral Talks

The Governments of Indonesia (GOI) and Japan held a fourth round of Economic Partnership Agreement (EPA) talks from April 17-21 in Tokyo. The talks, which began in 2005, are aimed at easing trade barriers, improving Indonesia's trade capacity, addressing intellectual property rights (IPR), and boosting Japanese investment into Indonesia. According to Ministry of Trade officials, Indonesia has requested improved access for its labor force to work in Japan, particularly for factory workers, sailors, and home care workers for the elderly.

GOI Delays Labor Law Revisions

President Susilo Bambang Yudhoyono on April 7 said his administration would postpone the submission to Parliament of draft revisions to Indonesia's 2003 Labor Law following large labor demonstrations opposing the plan. On April 5, an estimated 50,000 demonstrators protested revisions to the existing law, claiming that they favored business at the expense of workers' rights and welfares. Additional labor demonstrations took place on May 1 and 3. Following a meeting with Vice President Kalla, business groups and labor unions on April 7, Minister of Manpower and Transmigration Erman Suparno said the GOI would form a tripartite committee to study the issue further and make recommendations for a draft law acceptable to all parties. Labor unions have threatened to stage further mass demonstrations on May Day, May 1, and throughout the month of May.

The Yudhoyono Administration has made labor law reform in 2006 a cornerstone of its comprehensive, February 27 "Investment Climate Improvement Package". Business groups and investors have argued that provisions of the 2003 Labor Law make it cost prohibitive to hire and fire workers, noting that, on average, dismissed workers are entitled to nine months of severance pay, regardless of the circumstances of their separation for a company.

GOI Eases Expatriate Work Permits Requirements

The Ministry of Manpower and Transmigration in late March issued decree no.7/2006 on procedures for obtaining a permit to employ expatriate workers. The decree, which took effect on May 1, allows local employers to apply for and obtain work permits for expatriate employees before they arrive in Indonesia. Under a previous decree, expatriate workers were required to apply for work permits when they arrived in Indonesia, a process that could delay their employment for months. The process for obtaining expatriate work permits involves sixteen separate approvals from five ministries, costing an estimated USD 1,800, including a USD 1,200 annual fee to support development of Indonesian workers' skills. The GOI has pledged to simplify the process as part of its February 27 investment climate package. The Indonesian Employers Association (Apindo), claims that the GOI has failed to use the large sums collected from some 40,000 expatriates living in Indonesia over the past three decades to effectively develop skills of Indonesian workers.

GOI Considers Chinese Railway Loan

Minister of transportation M. Hatta Rajasa announced on April 21 that the GOI is considering a USD 200 million soft loan from China to build a 159 kilometer double track railway connecting Cirebon, West Java to Kroya, Central Java. Rajasa said the loan would be part of a USD 800 million loan commitment from China through 2025 for infrastructure projects in Indonesia, which was agreed to during Vice President Jusuf Kalls's April 20 trip to China. The Cirebon-Kroya double track railway project would contain a 60 percent local component, according to Rajasa. He added that the GOI hoped to tender the project soon, select a contractor by September 2006, and begin the project by the end of the year.

GOI Seeks to Reinvigorate Textile Industry

Minister of Industry Fahmi Idris, Minister of Trade Mari Pangestu, and representatives of Indonesia's major textile producers associations met on April 12 to discuss plans to reinvigorate Indonesia's textile and garment sectors. According to Idris, the GOI plans to work with the industry and international organizations to revamp manufacturing facilities, increase investment in the sector, and eradicate textile smuggling. The Minister noted that most Indonesian textile machinery is more than two decades old and needs upgrading. He expressed hope that local banks would provide USD 100 million and the International Finance Corporation (IFC) USD 250 million in loans to support restructuring of the industry. Minister of Trade Mari Pangestu said that her ministry would tighten controls over textile trading in the domestic market and better enforce anti-smuggling laws.

Vehicle Sales Drop Dramatically

Indonesian Automotive Manufacturers Association data shows that unit car sales fell to 80,000 for Q1 of 2006, a 45 percent decline YoY. Industry analysts expect automobile sales in 2006 to reach just 400,000 units, a 33.5 percent decrease from the 533,910 units sold in 2005. They linked the decline in sales to October 2005 fuel price hikes and the resulting inflation and higher interest rates on consumer loans. Meanwhile, the Indonesian Motorcycle Manufacturers Association announced on April 15 that motorcycle sales dropped slightly to 906,000 units in Q1 of 2006, a 0.03 percent decline from the 906,245 units sold in Q1 of 2005.

GOI Considers Abolishing Import Duties

The Ministry of Finance announced on April 17 plans to abolish import duties on raw materials for textiles, beverages, footwear and electronics as part of an effort to boost growth in these industries. A Ministry of Finance official noted that the GOI is also considering exempting commodity goods produced by those four industries from value-added tax. The GOI currently applies between five to fifteen percent import duties on raw materials for these sectors, and 10 percent value-added tax on the goods they produce.

Sugar Import Licenses Halted

Minister of Trade Mari Pangestu announced on April 19 her ministry has abandoned earlier plans to issue additional sugar import licenses this year. According to Pangestu, local sugar production in 2006 should reach 2.48 million tons, and local consumption 2.27 million tons. The Ministry of Trade has issued licenses for the importation of 300,000 tons of sugar in 2006. Licensees have already imported 190,000 tons and are authorized to import another 55,000 tons. State Logistic Agency (Bulog) and state trading firm PPI are to share equally the importation of the remaining 110,000 tons.

According to at 2004 Ministry of Trade Decree (No.02/M/Kep/XII/2004), sugar imports are subject to the following requirements:

- Importation of sugar is allowed for "plantation white sugar" with ICUMSA numbers between 70 IU to 200 IU;
- Importation of sugar is prohibited from one month before to two months after the harvest season;
- Importation of sugar is permitted when when the basic price of sugar paid to farmers rises above Rp 3,410 per kilogram;
- Importation of sugar is allowed when domestic production cannot meet demand;

- The Ministry of Agriculture determines the period of harvest seasons; and
- An interagency coordinating meeting determines basic sugar prices, sugar stock status, and the amount allowable for import.

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